

## Message Text

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ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 AGR-20 SAJ-01 SWF-02 AID-20

CEA-02 CIAE-00 COME-00 EB-11 FRB-02 INR-10 NSAE-00

RSC-01 CIEP-02 SPC-03 STR-08 TRSE-00 LAB-06 SIL-01

SAM-01 OMB-01 SS-20 NSC-07 L-03 H-03 PA-04 PRS-01

USIA-15 INT-08 FEA-02 SCI-06 TAR-02 AF-10 ARA-16 EA-11

NEA-10 DRC-01 /250 W  
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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 6645

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

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USMISSION OECD PARIS

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C O N F I D E N T I A L SECTION 01 OF 02 EC BRUSSELS 1913

E.O. 11652: GDS

TAGS: PFOR, EEC, US

SUBJECT: QUARTERLY TRENDS REPORT - EUROPEAN COMMUNITY

REFS: A) EC BRUSSELS 1124 B) EC BRUSSELS 1025 C) EC BRUSSELS 7454

1. BEGIN SUMMARY: THE CRISIS IN THE COMMUNITY PERSISTS AND  
WAS FURTHER AGGRAVATED DURING THE QUARTER BY THE FLOATING OF  
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THE FRANC AND THE EC SPLIT AND THE WASHINGTON ENERGY CONFERENCE.

ELECTION OF A MINORITY LABOR GOVERNMENT IN THE UK COMMITTED TO "RENEGOTIATION" OF THE ACCESSION TREATY HAS CONTRIBUTED TO THE STAGNATION AS THE COMMUNITY WAITS TO SEE HOW THE BRITISH WILL PROCEED. DESPITE SATISFACTION THAT IT WAS POSSIBLE TO SET 1974/75 AGRICULTURAL SUPPORT PRICES WITHOUT AN ADDITIONAL CRISIS, ATTENTION IS NOW DIRECTED AT THE APRIL 1-2 COUNCIL MEETING WHERE BRITISH FOREIGN SECRETARY CALLAGHAN IS EXPECTED TO LAY OUT HOW THE BRITISH PLAN TO HANDLE "RENEGOTIATION."

2. ON THE EXTERNAL SIDE STRAINS IN US-EC RELATIONS WERE INTENSIFIED BOTH AS A RESULT OF THE OUTCOME OF THE WASHINGTON ENERGY CONFERENCE BUT MORE IMPOTANTLY FOLLWOING THE HIGH-LEVEL US CRITICISM OF THE COMMUNITY OVER ITS DECISION TO PROCEED WITH THE NEGOTIATION OF COOPERATION AGREEMENTS WITH THE ARAB STATES. THE ISSUE OF CONSULTATIONS WHICH LAY AT THE HEART OF OUR DIFFERENCES IN CONNECTION WITH THE US-EC DECLARATION BROKE OUT IN THE OPEN WITH A BANG. THE EUROPEANS WERE DISMAYED BY THE FORCE OF OUR PUBLIC STATEMENTS AND FAILED TO UNDERSTAND OUR ACROSS-THE-BOARD ATTACK AGAINST THE COMMUNITY IN BOTH THE POLITICAL AND ECONOMIC AREAS. ON THE ECOMOMIC SIDE, EXISTING CONSULTATIVE ARRANGEMENTS SEEMED TO BE WORKING WELL. HOWEVER, THE GATT ARTICLE XXIV:6 PROBLEM EMERGED AT THE END OF THE QUARTER AS A POTENTIALLY EXPLOSIVE ISSUE WHEN, AS WE APPROACHED THE APRIL 1 COUNCIL MEETING DEADLINE, IT WAS NOT YET CLEAR THAT OUR QUIET EFFORTS IN COOPERATION WITH THE COMMISSION WOULD SUCCEED IN BRINGING ABOUT A SATISFACTORY COMPROMISE SOLUTION.

3. THUS, AT THE END OF THE FIRST QUARTER, THE COMMUNITY IS STILL MARKING TIME, UNCERTAIN HOW IT WILL PROCEED. IT IS DOUBTFUL THE APRIL 1-2 COUNCIL MEETING WILL PROVIDE MAMY ANSWERS AND THE LIKELIHOOD OF A MAY SUMMIT MEETING REMAINS IN DOUBT. A BASIC PROBLEM REMAINS THE WEAKNESS OF EUROPEAN GOVERNMENTS AND LEADERSHIP. AS THE PRECESS OF EUROPEAN INTEGRATION HAS STAGNATED, THE TREND SEEMS TO BE MORE AND MORE IN THE DIRECTION OF A GAULLIST "EUROPE DES PATRIES" WITH ONLY THE CUSTOMS UNION AND A TORTURED CAP REMAINING OF THE ORIGINAL CONCEPT. END SUMMARY.

4. THE EUROPEAN COMMUNITY CONTINUED TO MARK TIME DURING THE  
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FIRST QUARTER OF 1974. THE CRISIS AT THE END OF THE YEAR HAS PERSISTED AND THE SITUATION AGGRAVATED EVEN FURTHER BY THE WITHDRAWAL OF THE FRENCH FROM THE SNAKE AND THE 8-1 SPLIT OF THE NINE AT THE WASHINGTON ENERGY CONFERENCE. THE FLOATING OF THE FRENCH FRANC HAS RESULTED IN AN ADDITIONAL SETBACK TO ECONOMIC AND MONETARY UNION. THE MEMBER STATES HAVE TENDED TO BECOME POLARIZED BETWEEN, ON THE ONE HAND, THE FRG AND THOSE MEMBER STATES WHOSE

CURRENCIES ARE LINKED TO THE MARK AND, ON THE OTHER, THE REMAINING MEMBER STATES WHOSE CURRENCIES ARE FLOATING INDEPENDENTLY. COMMISSION PROPOSALS ON SUCH ISSUES AS POOLING OF RESERVES CONTINUE TO BE STUDIED AND REPORTED ON WITHIN THE COMMUNITY, BUT A POSITIVE RESPONSE FROM THE MEMBER STATES SEEMS LIKE A REMOTE PROSPECT AT THIS TIME. WHILE THE EIGHT ARE COOPERATING IN THE ENERGY COORDINATING GROUP, FRANCE HAS PUT FORWARD A PROPOSAL FOR AN AUTONOMOUS EC ENERGY AGENCY, POSSIBLY IN AN ATTEMPT TO UNDERCUT THIS COOPERATION. IN ANY EVENT, NO REAL MOVE TOWARD A COMMON ENERGY POLICY HAS YET DEVELOPED. AND ANY ATTEMPT TO RESOLVE THE DISPUTE OVER THE REGIONAL FUND HAS BEEN PUT ON ICE UNTIL THE VIEWS OF THE NEW BRITISH GOVERNMENT BECOME KNOWN.

5. THUS STAGNATION CONTINUES TO CHARACTERIZE THE COMMUNITY. THE ELECTION OF A MINORITY LABOR GOVERNMENT IN THE UK HAS INTRODUCED AN ADDITIONAL ELEMENT OF UNCERTAINTY AND INSTABILITY. ALMOST EVERYTHING HAS COME TO A STOP AS THE OTHERS WAIT FOR CALLAGHAN TO SPELL OUT AT THE APRIL 1-2 COUNCIL MEETING PRECISELY HOW THE LABOR GOVERNMENT INTENDS TO PROCEED IN SEEKING TO OBTAIN "FUNDAMENTAL" CHANGES IN THE PROVISIONS OF THE ACCESSION TREATY CONCERNING THE CAP, BUDGETARY ARRANGEMENTS AND ACCESS TO THE UK MARKET. THERE WAS SOME SATISFACTION EARLIER THIS WEEK OVER THE AGREEMENT REACHED ON AGRICULTURAL SUPPORT PRICES. DESPITE THE MANY EXCEPTIONS TO CAP RULES WHICH WERE MADE, AND WHICH WEAKENED FURTHER THE COHERENCE OF THIS POLICY, THE AGREEMENT NONETHELESS SUCCEEDED IN PRESERVING THE CAP AND AVOIDING A SHARP CHALLENGE TO THE VERY EXISTENCE OF THE COMMUNITY. THERE IS ALSO A WAIT-AND-SEE REACTION, HOWEVER, AS TO WHETHER THE MODERATE BRITISH APPROACH TO THE AGRICULTURAL COUNCIL MEETING WILL BE FOLLOWED BY A TOUGHER

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LINE AT THE MEETING OF FOREIGN MINISTERS NEXT WEEK. THE

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INFO OCT-01 IO-14 ISO-00 AGR-20 SAJ-01 SWF-02 AID-20

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INFO AMEMBASSY BONN

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OTHER EIGHT SEEM WILLING, AS THEY SHOWED AT THE AGRICULTURAL COUNCIL MEETING, TO MEET ANY REASONABLE BRITISH DEMANDS. THERE IS OBVIOUSLY A LIMIT, HOWEVER, TO HOW FAR THEY CAN GO IN MEETING THE LABOR GOVERNMENT COMMITMENT TO A "FUNDAMENTAL RENEGOTIATION." SO FAR THE SIGNS ARE THAT THE BRITISH ARE UNLIKELY TO PUSH TOO HARD OR TOO FAST AND THAT THEY WILL CONCENTRATE, FOR THE TIME BEING AT LEAST, ON SEEKING CHANGES WORKING FROM WITHIN THROUGH COUNCIL ACTIONS RATHER THAN  
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INSISTING ON FORMAL RENEGOTIATION OF THE ACCESSION TREATY- BUT THIS MAY NOT BE POSSIBLE ESPECIALLY WITH RESPECT TO THE BUDGETARY ARRANGEMENTS.

6. THE LACK OF PROGRESS IN INTERNAL COMMUNITY DEVELOPMENT DURING THE PAST THREE MONTHS HAS ALSO BEEN MATCHED BY THE ABSENCE OF ANY SIGNIFICANT FORWARD MOVEMENT IN THE COMMUNITY'S EXTERNAL RELATIONS (RELATIONS WITH THE US ARE

TREATED SEPARATELY BELOW). THE NEGOTIATIONS WITH THE AFRICAN, CARIBBEAN AND PACIFIC (ACP) COUNTRIES RESUMED THIS WEEK AFTER A BREAK FOLLOWING THE INITIAL ROUND OF SPARRING. HOWEVER, THE COMMISSION STILL HAS NO MANDATE TO GET DOWN TO SERIOUS NEGOTIATING. THE SAME IS TRUE, SO FAR, WITH RESPECT TO ADOPTION OF A GLOBAL POLICY ON RELATIONS WITH THE MEDITERRANEAN COUNTRIES, ALTHOUGH THERE COULD BE A BREAKTHROUGH IN THIS AREA AT THE APRIL 1-2 COUNCIL MEETING.

7. THE COMMUNITY HAS THUS, IN EFFECT, BEEN MARKING TIME IN ITS RELATIONS WITH THE LDC'S. THE COMMISSIONS DID TAKE A NEW INITIATIVE, HOWEVER, IN PROPOSING FINANCIAL ASSISTANCE TO LDC'S SUFFERING FROM THE BALANCE OF PAYMENTS EFFECTS OF HIGHER OIL PRICES. THE PERM REPS MOVED QUICKLY IN CONSIDERING THE PROPOSAL WHICH WILL BE CONSIDERED BY THE APRIL 1-2 COUNCIL MEETING, THE COMMUNITY COULD POSSIBLY BE READY TO RAISE THE PROPOSAL AT THE APRIL 9 UNGA SPECIAL SESSION.

8. THE FIRST QUARTER SAW AN INTENSIFICATION IN THE STRAINS IN US-EC RELATIONS WHICH EXISTED AT THE END OF 1973. THESE WERE PRIMARILY IN THE CONTEXT OF EC POLITICAL COOPERATION. FOLLOWING THE SHOCK THE NINE RECEIVED AT THE WASHINGTON ENERGY CONFERENCE, WHERE THEY HAD ATTEMPTED TO TAKE A COMMON POSITION ONLY TO BE SERIOUSLY SPLIT BECAUSE OF FRENCH OBSTRUCTIONISM, THE NINE DID AGREE ON A COMMON APPROACH, AT FRENCH INITIATIVE, IN NEGOTIATING COOPERATIVE ARRANGEMENTS WITH THE ARAB COUNTRIES. AT THE SAME TIME THE OTHER EIGHT PROCEEDED TO COOPERATE WITH THE US IN THE ENERGY COORDINATING GROUP. THEY SAW NO CONTRADICTION IN THESE TWO ACTIONS WHICH MADE IT POSSIBLE TO BRING ABOUT A SEMBLANCE OF COMMUNITY SOLIDARITY ON THE ONE HAND AND

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CLOSE COOPERATION WITH THE US ON THE OTHER. US CRITICISM OF THE EC DECISION TO PROCEED WITH A BILATERAL DIALOGUE WITH THE ARABS AND OUR COMPLAINTS ABOUT THE LACK OF PROPER CONSULTATIONS BROUGHT HOME TO THE EIGHT THAT THEY COULD NOT HAVE IT BOTH WAYS. FACED WITH CHOOSING BETWEEN FRANCE AND THE US, THE EIGHT ARE BEGINNING TO TAKE ANOTHER LOOK AT THE RELATIONSHIP BETWEEN EC POLITICAL COOPERATION, AND CONSULTATIONS AND COOPERATION WITH THE US. THE GERMANS HAVE NOW PUT FORWARD, WITH BRITISH SUPPORT, SOME IDEAS FOR A US-EC CONSULTATIVE LINK THROUGH THE EC POLITICAL DIRECTORS. IT REMAINS TO BE SEEN, OF COURSE, WHETHER THE FRENCH WILL BUY THIS APPROACH. TO MANY OBSERVERS HERE IT SEEMS VERY DOUBTFUL THEY WILL.

9. US DISSATISFACTION WITH US-EC CONSULTATIVE ARRANGE-

MENTS WAS ALREADY UNDER DISCUSSION IN CONNECTION WITH THE PROPOSED US-EC DECLARATION. US CRITICISMS ON THE ECONOMIC SIDE OF OUR RELATIONSHIP ARE MORE RECENT, HOWEVER, AND HAVE LED TO PUZZLEMENT IN COMMUNITY CIRCLES. IN GENERAL, THERE HAD BEEN CONSIDERABLE IMPROVEMENT IN OUR COOPERATION ON ECONOMIC ISSUES OVER THE PAST YEAR OR SO. BOTH SIDES SEEMED FAIRLY SATISFIED WITH THE CONSULTATIVE ARRANGEMENTS THAT WERE ESTABLISHED (THROUGH THE US MISSION HERE AND VISITORS TO AND FROM BRUSSELS, PLUS BILATERAL DIPLOMATIC CHANNELS AT CAPITALS AND THE CASEY/SOAMES CHANNEL). THERE WAS SOME SURPRISE, THEREFORE, AT US CHARGES OF EC HOSTILITY ON ECONOMIC ISSUES. AS THE QUARTER WAS ENDING, HOWEVER, THE GATT ARTICLE XXIV:6 ISSUE ACQUIRED AN EXPLOSIVE POTENTIAL WITH THE DANGER OF A TRADE WAR. THROUGH QUIET DIPLOMATIC COOPERATION WE HAVE BEEN WORKING WITH THE COMMISSION TO FIND A SATISFACTORY COMPROMISE BUT AS WE APPROACH THE DEADLINE IT APPEARS THAT WE MAY NOT SUCCEED. AFTER LONG CONSULTATIONS, THE COMMISSION HAS INFORMED US THAT IT BELIEVES THE CURRENT US REQUEST IS LARGER THAN THE MEMBER STATES WILL ACCEPT. THIS IS MORE OF A TRADE NEGOTIATION SITUATION IN WHICH BOTH SIDES HAVE BEEN BARGAINING HARD FROM BASICALLY DIFFERENT POINTS OF DEPARTURE. NEVERTHELESS, REGARDLESS OF THE INTRINSIC MERITS OF THE ISSUE THERE IS A REAL DANGER THAT IT WILL BLOW UP NEXT WEEK, AND BE TREATED IN THE PRESS ALL OUT OF PROPORTION BECAUSE OF

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THE PRESENT CLIMATE OF US-EC RELATIONS.

10. FINALLY, THE BASIC TREND WE HIGHLIGHTED IN OUR FIRST QUARTERLY REPORT, THE WEAKNESS OF EUROPEAN GOVERNMENTS AND LEADERSHIP, REMAINS AS AN UNDERLYING FACTOR CONTRIBUTING TO THE

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## Message Attributes

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